AGCO

Alcohol and Gaming Commission of Ontario

2007/08 Annual Report

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Ontario

MEMORANDUM TO: The Honourable Ted McMeekin
Minister
Ministry of Government Services

FROM: David C. Gavsie
Chair
Alcohol and Gaming Commission of Ontario

RE: 2007-2008 Annual Report

I am pleased to present the Alcohol and Gaming Commission of Ontario's Annual Report covering the period April 1, 2007 to March 31, 2008.

David C. Gavsie
Chair

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Message from the Chair

During the past fiscal year, a number of significant changes have taken place at the Alcohol and Gaming Commission of Ontario (AGCO) which have had a profound impact on the way in which the Commission conducts its business. The cornerstone of these changes can be traced back to the corporate priorities and key directions that were first identified by the AGCO during the business planning process in 2004, and which have been built upon in business plans over the past few years.

CORPORATE PRIORITIES

Since 2004, the AGCO has been guided by an operating philosophy which supports the advancement of five corporate priorities:

- Build more effective communications
- Strengthen our business processes and information technology management capabilities
- Modernize the alcohol and gaming regulatory environment
- Maximize our employee potential
- Enhance the AGCO's corporate accountability

The Commission's operational activities since that time have been developed to specifically support the advancement of these priorities. Likewise, the AGCO has implemented a number of initiatives in keeping with this framework, not only to achieve its short term objectives of supporting its corporate priorities, but also to lay the foundation for a longer term strategy which would move the agency towards a new operating framework — one that would be focused more on compliance, rather than enforcement.

This emphasis upon compliance — putting in place the tools and techniques that are intended to increase compliance by licensees and registrants — has been one of the key components of the Commission's business planning in recent years. Recent legislative changes, such as the creation of a framework for *risk-based licensing* under section 8.1 of the *Liquor Licence Act (LLA)*, have provided a statutory basis for some of the changes that have occurred at the AGCO. But the AGCO is also reviewing its policies and procedures in keeping with an overall goal to enhance the levels of compliance in the liquor and gaming industries. This review has resulted in changes to the due diligence process for applicants, the process in reviewing and assessing incidents of potential non-compliance, an enhanced public affairs function (including information for licensees and registrants), and stakeholder consultations on *monetary penalties*. A higher level of compliance will benefit both the public and the participants in the industries, but will also allow the AGCO to focus on those who pose a greater risk to public safety and to the public interest.

LIQUOR LICENCE ACT REFORM

At the heart of our broader strategic move towards a compliance-based regulatory approach are two major changes that were made to Ontario's liquor licensing regime in July, 2007. The first, as I mention above, was the introduction of section 8.1 to the *LLA*. This change created the framework for the development of a risk-based licensing system that allows the AGCO to strategically focus resources where they will make the most difference. Under this system, decision-making by the Commission is based on a thorough risk assessment. The criteria used to assess risks are established by the Board, as are the resultant conditions that may be attached to a licence to mitigate those risks.

The second major change was the enactment of section 14.1 of the *Alcohol and Gaming Regulation and Public Protection Act, 1996*, which empowered the Board of the AGCO to create a schedule of monetary penalties that may be imposed for contraventions of Acts and regulations administered by the AGCO, and using the revenue collected in this manner for public and stakeholder education.

Both of these initiatives are being methodically pursued and will be rolled out over a three to five year period. Phase one of the implementation of risk-based licensing will begin in the summer of 2008, and will run for at least twelve months. The first phase includes only certain cities and at the outset covers only new liquor licence applications. I would encourage you to refer to our website at *www.agco.on.ca* for further information on this extremely important initiative.

CORPORATE ACCOUNTABILITY

Another of our ongoing missions and key priorities identified within our current business plan is to continually enhance and improve our agency's *corporate accountability and transparency*. To this end, in the summer of 2007, the AGCO contracted a consulting firm to review and report on the organization's existing internal controls. The focus of the review was to highlight to stakeholders the AGCO's continuing resolve to consistently improve its corporate accountability. Such improvements are achieved through measures that strengthen internal checks and balances, deter inappropriate external activities such as fraud, and ultimately, strengthen corporate accountability and transparency.

In addition to providing assurance that our system of internal controls appears to be designed and operating effectively, the final report acknowledged the many multifaceted enhancements that the AGCO is already in the process of implementing in the area of corporate governance, ranging from risk management strategies to quality assurance processes.

An implementation plan has been approved by the Board to monitor and manage the execution of the review's recommendations, and I am pleased to report that progress has been made on addressing all the recommendations, and in some instances, the recommendations have already been fully implemented.

Our achievements over the last year could not have been accomplished without the dedication and hard work of the 500 men and women of the AGCO, specifically the Board members, the staff in the Hearings Department, the AGCO Senior Management team, the Ontario Provincial Police officers attached to the AGCO, and all of the employees of the AGCO, each of whom strives to ensure that the application and administration of Ontario's liquor and gaming laws are carried out in a fair and efficient manner, with integrity and honesty.

David C. Gavsie

Chair

Message from the Chief Executive Officer

"Perhaps our most remarkable achievement in 2007/08 was the implementation of a *new regulatory regime* to oversee lotteries operated by the Ontario Lottery and Gaming Corporation."

Given the Board's overall direction to move the Alcohol and Gaming Commission of Ontario (AGCO) towards a new compliance-based operational framework, our attention has been focused over the past year on undertaking change in a number of meaningful areas. In addition to substantial reforms in the broad areas of policy, legislation and regulation, we have also launched several corporate initiatives aimed at enhancing the management, operational and administrative capabilities of the Commission. In the year ahead, our main objective will be the orderly and timely implementation of the initiatives we have underway.

I believe these changes will be critical in helping us to address the Board's key priorities and direction for the agency and to ensure that we are well-positioned to meet any future challenges that may arise.

LOTTERIES |

Perhaps our most remarkable achievement in 2007/08 was the implementation of a *new regulatory regime* to oversee lotteries operated by the Ontario Lottery and Gaming Corporation (OLG). This change came into effect as a result of a report released by the Ombudsman of Ontario in March 2007 which concluded that more had to be done to protect the public from fraud and theft in Ontario's lottery system. One of the key recommendations in the Ombudsman's report was that regulatory oversight of the provincially-run lotteries be introduced and delegated to a separate agency such as the AGCO. This recommendation was adopted by the Ontario government and a new regulatory regime was developed for lotteries with provisions under both the *Gaming Control Act* and the *Ontario Lottery and Gaming Corporation Act, 1999*.

Key elements of the new regulations include a *lottery retailer registration program* (which includes background checks), enforced rules of conduct for lottery retailers, a process for investigating complaints against retailers and a voluntary dispute resolution process by which lottery participants can arbitrate disputes over prizes.

The new regulatory regime to oversee lotteries was fully implemented between March 26, 2007, when the Ombudsman made his recommendations, and January 1, 2008, when almost all of the approximately 10,000 lottery retailers were successfully registered. While it was an extraordinary achievement to have implemented the lottery registration program in such a short period of time, the even greater accomplishment was being able to take on this immense new responsibility without losing track of our stated business commitments.

I would like to thank all my staff, whose hard work and dedication made this possible.

NEW BINGO REVENUE MODEL

A *new provincial bingo revenue model* was implemented on May 1, 2007, replacing the interim model that had been in place since February 2006. The new model, which was introduced after an extensive review and consultation process, is designed to assist charities to maintain this important source of funding.

The new model provides greater flexibility in the type of bingo games offered, allowing charities to better respond to market changes, and lowers the prize board (i.e. the percentage of revenue permitted to be used for prizes), thereby increasing the amount retained by charities. Finally, I would note that a marketing fund has now been established to help promote the industry, funded from 10% of the revenues after prizes are paid out, with hall operators and charities jointly making decisions regarding the use of the fund.

AUDITOR GENERAL'S REPORT

In the summer of 2007, the Auditor General initiated a follow-up review of the 2005 value for money audit conducted on the AGCO's charitable gaming program. As part of the initial audit, the AGCO appeared before the Public Accounts Committee in April 2006 to address the findings of the Auditor General. The purpose of the follow-up review was to examine the AGCO's progress on implementing the audit recommendations.

AGCO staff worked diligently to implement the report's recommendations and report back to the committee within the requested timeframes. In his follow-up report, the Auditor General indicated that the AGCO had made good progress in addressing the 2005 recommendations, but highlighted two areas that the Auditor General felt required additional work – oversight of municipal licensing activities and controls over break open tickets (BOTs).

In response to the Auditor General's recommendations, the AGCO continued to work with the Association of Municipal Managers, Clerks and Treasurers of Ontario and the Ministry of Government and Consumer Services, among others, to determine the best manner in which to address the Auditor General's concerns regarding municipal licensing activities. In the area of BOTs, the AGCO is looking at potential improvements to controls and exploring alternative measures that would address any outstanding risks. Discussions with the OLG have been ongoing as to whether an alternative measure might involve leveraging OLG resources to assist in this area.

SOCIAL RESPONSIBILITY

Over the past year, the AGCO has continued to play a meaningful role in the promotion of *social responsibility* in the alcohol and gaming sectors. Our responsibilities in this area are prescribed by our governing legislation, which requires that the AGCO exercise its powers and duties in the public interest, and in accordance with the principles of honesty, integrity and social responsibility. These principles guide and direct the AGCO in how we carry out our mandate and serve as a reference point in determining our fundamental objectives as a regulatory agency.

The first of these objectives is to prevent *unlawful activity*, such as cheating and theft. This may be accomplished, for instance, by establishing standards to which operators must adhere (e.g. casino surveillance, security requirements, tighter internal controls, etc.). The second is to *protect the consumer and the public*, by ensuring the integrity of the games and gaming equipment and approving all the rules of play for table games, among other things.

Our final fundamental objective is to promote and maintain *social responsibility* in the sectors that we regulate.

To this end, there are a number of provisions in the Acts and regulations we administer that are specifically directed at promoting social responsibility. For example, under the *Liquor Licence Act*, licensees are prohibited from permitting drunkenness in their establishments and selling or serving to minors and intoxicated individuals. Additionally, licensees and manufacturers are obligated to advertise or promote liquor in a socially responsible manner, which does not, for instance, target minors or associate the consumption of liquor with driving a motorized vehicle or with personal success, among other things. In the gaming context, there are measures in place to ensure that persons under the age of nineteen (19) cannot enter gaming premises or gamble, policies in place to ensure that individuals do not become intoxicated and that individuals who appear intoxicated are not permitted to gamble, and strict procedures on access to credit to protect individuals from gambling above their financial means. There are also regulations and policies in place designed to ensure that the advertising and marketing of gaming is socially responsible and does not target minors or individuals with a known gambling problem or suggest that gambling may promote lifestyle improvements, whether financial, social or personal.

In the year ahead, we will work diligently to ensure that the Commission continues to fulfill this crucial aspect of our mandate and that our strategies and operations continue to meet the highest standards of honesty, integrity and social responsibility.

Once again, I look forward to working with the Board of the AGCO and the Chair, David Gavsie. I want to thank all of our management and staff for their enthusiasm and diligence in the performance of their duties, and for their valuable contribution in helping to implement the many significant changes that have been undertaken over the past year.

Jean Major

Chief Executive Officer

AGCO Overview and Key Activities

Vision

Mandate

Mission

KEY ACTIVITIES

The AGCO is responsible for the administration of the following:

- *Liquor Licence Act (LLA)*;
- *Wine Content and Labelling Act, 2000*;
- *Liquor Control Act [Section 3(1)b, e, f, g and 3(2)a]*;
- *Gaming Control Act, 1992 (GCA)*;
- Lottery Licensing Order-in-Council, 2688/93 (as amended); and
- *Alcohol and Gaming Regulation and Public Protection Act, 1996 (AGRPPA)*

The administration of these Acts and the Order-in-Council involves the following core activities:

Regulating Ontario's Alcohol and Gaming Sectors

- Licensing and regulating Ontario's establishments that sell or serve liquor, liquor delivery services, liquor manufacturers, their agents and agents of foreign manufacturers, and ferment on premise facilities, as well as administering the Special Occasion Permit program, delivered through designated Liquor Control Board of Ontario (LCBO) retail stores.
- Authorizing manufacturers' retail stores, which include on-site and off-site winery retail stores, on-site distillery retail stores and brewery retail stores, and Brewers Retail Inc. stores (The Beer Store).
- Registering commercial suppliers and gaming employees of charitable gaming events, casinos, charity casinos, and slot operations at racetracks.
- Administering the regulatory framework governing the issuance of charity lottery licences (e.g., bingo, raffle, and break open ticket events).
- Licensing games of chance at fairs and exhibitions.
- Approving rules of play or changes to rules of play for games of chance conducted and managed by the Ontario Lottery and Gaming Corporation (OLG) at casinos, charity casinos and slot machine facilities at racetracks.
- Excluding persons from accessing gaming premises in the province of Ontario pursuant to the *GCA* and its regulations.
- In July 2007, the AGCO was assigned responsibility for regulating the provincial lottery system. This includes registration of individuals and businesses providing services to, or on behalf of, the OLG (i.e. Lottery Retailers). The regulations governing this sector took full effect January 1, 2008.

Investigating, Inspecting and Monitoring

- Inspecting and monitoring licensed establishments to ensure compliance with the *LLA* and regulations.
- Inspecting and monitoring casinos, charity casinos, slot operations at racetracks and charitable gaming events/facilities for compliance with the *GCA*, its regulations, and licensing and registration requirements.
- Conducting background investigations on individuals and companies seeking registration and licensing under the *GCA* and *LLA*.
- Providing police presence at casinos, charity casinos and slot operations at racetracks.
- Conducting audits of companies registered and licensed under the *GCA* and *LLA*.

- Approving and monitoring internal control systems, surveillance and security systems, and other operational systems for casinos, charity casinos and slot machine facilities at racetracks for compliance with all regulatory requirements.
- Testing, approving and inspecting slot machines and gaming systems.
- Inspecting and monitoring retailers who sell lottery tickets on behalf of the OLG.
- Investigation of insider wins involving lottery retailers, lottery retailer managers or lottery equipment suppliers.
- Investigation of suspicious lottery wins carried out by the Ontario Provincial Police (OPP) Bureau assigned to the AGCO.

Adjudication

- Conducting hearings on proposed orders under the *LLA* and *GCA*.
- Conducting hearings on Registrar's refusal to licence or register under the *LLA* and *GCA*.
- Conducting compliance order hearings and hearings on the wine authority's refusal to grant an approval or suspend, revoke or refuse to renew an approval to use the terms, descriptions and designations established by the wine authority under the *Vintners Quality Alliance Act, 1999*.
- Conducting public interest hearings to determine eligibility for liquor licensed premises, additions to liquor licensed premises or revocation of liquor licensed premises where the public files objections in response to a public notice advising of the request for a licence or an amendment thereof.
- Arbitrating disputes between two or more claimants for a lottery ticket prize.

Organizational Structure

The AGCO's organizational structure is based on functional responsibilities with internal 'checks and balances' on the exercise of the agency's powers and authorities.

Board of Directors*

The *Alcohol and Gaming Regulation and Public Protection Act, 1996* constitutes the AGCO as a corporation without share capital and requires that the AGCO shall have a Board of Directors of at least five (5) members. Board members are appointed by the Lieutenant Governor in Council, through Order-in-Council.

NAME	POSITION	TERM
David C. Gavsie	FULL-TIME CHAIR	November 2005 – October 2008
Kirsti Hunt	PART-TIME VICE-CHAIR	April 1997 – April 2011
Patricia McQuaid	FULL-TIME VICE-CHAIR	April 2003 – November 2008
Dianne M. Axmith	PART-TIME MEMBER	April 2003 – April 2009
Beryl Ford	PART-TIME MEMBER	September 2004 – September 2009
Brian Ford	PART-TIME MEMBER	September 2004 – September 2009
Allan Higdon	FULL-TIME MEMBER	March 2005 – March 2013
S. Grace Kerr	FULL-TIME MEMBER	July 2007 – July 2009
Guy Maurice	FULL-TIME MEMBER	September 2006 – September 2008
Alex McCauley	PART-TIME MEMBER	October 2005 – October 2008
Eleanor Meslin	PART-TIME MEMBER	November 2000 – February 2010
Bruce R.H. Monteith**	PART-TIME MEMBER	April 2003 – April 2009

* The above list of Board Members reflects the period from April 1, 2007 to March 31, 2008, including their original appointment date.
** Mr. Monteith retired as a Board Member effective March 29, 2008.

AGCO BOARD ACTIVITIES

Governance

The Board is responsible for the overall governance of the Commission and meets as a Board of Directors on a monthly basis. In exercising its governance functions, the Board sets goals and develops policy and strategic directions for the Commission to fulfill its mandate. This involves working with the Chief Executive Officer and Senior Management through the Board's Finance and Audit, Policies and Procedures, and Education and Public Affairs committees. The AGCO exercises its powers and duties in the public interest and in accordance with the principles of honesty, integrity and social responsibility.

The AGCO operates at arm's length from the Ministry of Government and Consumer Services. Through a Memorandum of Understanding (MOU), the accountability relationships between the Chair and the Minister are formalized. The MOU also requires the AGCO to operate within specified Management Board Directives which govern agencies, including the Agency Establishment and Accountability Directive.

Adjudication

The *Alcohol and Gaming Regulation and Public Protection Act, 1996* gives the Members of the AGCO Board responsibility for hearing and deciding matters under the *LLA*, the *GCA*, the *Wine Content and Labelling Act* and the *Vintners Quality Alliance Act, 1999*. As of March 31, 2008, the Board was comprised of a full-time Chair, a full-time Vice-Chair, a part-time Vice-Chair, 3 full-time Members and 5 part-time Members. In carrying out its adjudicative responsibilities, the Board is supported by the Manager of Hearings and staff of the Hearings Department.

The Board conducts hearings and prepares decisions under the *LLA* and the *GCA*. The Board also conducts public interest hearings to review applications for liquor licences or additions to licensed premises where written objections to the issuance of a licence have been filed. The Board also conducts compliance order hearings and hearings on the wine authority's refusal to grant an approval or suspend, revoke or refuse to renew an approval to use the terms, descriptions and designations established by the wine authority under the *Vintners Quality Alliance Act, 1999*.

In 2007/08, the Board conducted 372 alcohol-related hearings, 31 public interest hearings, 14 gaming-related hearings and 144 pre-hearings. While this represents a decrease in the actual number of hearings held by the Board, at the same time there has been an increase in the length and complexity of the hearings before it. It is anticipated these trends will continue with respect to liquor and traditional gaming hearings. An increase in the number of Interim Suspension Orders has also been noted. Also, in its continuing effort to improve service delivery and reduce the time frame from the date of the request for a hearing to the actual hearing date, the Board has implemented a number of administrative improvements to the adjudicative process. These improvements have resulted in the elimination of a case backlog and a significant reduction in time between receipt of a Request for Hearing by the Hearings Department to the beginning of the hearing before the Board.

Administrative procedures have been streamlined. The average turn around time from request for hearing to hearing date was 3 to 4 months in 2007/08; this continues the 3 to 4 month turn-around time for hearings in 2006/07 which reduced the turn-around time from an average of 12 months in 2004/05. In addition, decisions of the Board are being published, on average, about 6 months after the initial request for a hearing is made to the Board.

Led by the Chair, the Board also developed and instituted a voluntary dispute resolution process by which lottery participants could arbitrate disputes over prizes or portions of a prize. The Chair issued Rules for lottery arbitrations on January 1, 2008.

ALCOHOL-RELATED HEARINGS*

FOR FISCAL YEARS	2006/07	2007/08
Hearing type based on Notice of Proposal issued by the Registrar of Alcohol and Gaming		
Revoke Licence	27	15
Refuse to Transfer/Renew Licence	10	4
Review Licence Application	38	45
Suspend Licence	349	177
Attach Condition	6	0
Refuse to Remove Condition	1	2
Total Number of Hearings (includes all hearings for which a decision was issued between April 1st, 2007 and March 31st, 2008.)	519	372
Total Number of Board Panels	486	421

* A number of new processes have been put into place to support the AGCO's transition from an enforcement based regulatory model to one that is compliance focused. Early resolution of issues results in fewer matters requiring a hearing but those matters being heard are more complex and the hearings take longer to complete.

PRE-HEARING CONFERENCES

FOR FISCAL YEARS	2006/07	2007/08
Number of Alcohol Related Pre-Hearing Conferences	146	144

ALCOHOL-RELATED SETTLEMENTS WITHOUT A HEARING

FOR FISCAL YEARS	2006/07	2007/08
Number of Settlements agreed to without a hearing*	94	40

* New process implemented to more efficiently deal with minor matters without need for hearing.

ALCOHOL-RELATED PUBLIC MEETINGS

FOR FISCAL YEARS	2006/07	2007/08
Number of Public Meeting Conference Calls*	67	31

* This is an alternative dispute resolution process.

GAMING-RELATED HEARINGS

FOR FISCAL YEARS	2006/07	2007/08
Total Number of Hearings	16	14

2007/08 Operational Overview

OPERATIONAL EFFICIENCIES AND HIGHLIGHTS

As the regulator of the liquor and gaming industries, the AGCO strives to be fair, responsive and service oriented. Education and awareness are key components for promoting compliance within the liquor and gaming industries throughout the province. The AGCO continues to work proactively with liquor licensees and gaming registrants to assist in the development of high marketplace standards and voluntary compliance. We also aim to fulfill our mandate to exercise our powers and duties in the public interest and in accordance with the principles of honesty, integrity and social responsibility. The AGCO considers social responsibility as an important principle in developing regulatory strategies and achieving its objectives.

During 2007/08, the AGCO continued to focus its activities on five key priorities identified in its business plan:

1. **Build More Effective Communications**
2. **Strengthen Business Processes**
3. **Modernize the Alcohol and Gaming Regulatory Environment**
4. **Maximize Employee Potential**
5. **Enhance Corporate Accountability**

Key activities which supported these priorities included:

1. **Development of an agency-wide compliance strategy which integrated the following projects:**
   - Risk-Based Enforcement
   - Risk-Based Licensing
   - Due Diligence Reform

2. **Modernization of Regulatory Frameworks**
   - *Liquor Licence Act (LLA)*
   - Charitable Gaming framework
   - *Gaming Control Act, 1992 (GCA)* (to include regulation of government-operated lotteries)

3. **Development of a Corporate Human Resources Plan and Information Technology Plan**

4. **An Agency-Wide Communications Review**

5. **New Electronic Gaming Machine Technical Standards**

Adding to this already ambitious agenda was the unanticipated result of the investigation into government operated lotteries that was launched by the Ombudsman of Ontario. On March 26, 2007, the Ombudsman released a report entitled *Investigation into the Ontario Lottery and Gaming Corporation's Protection of the Public from Fraud and Theft: A Game of Trust*. The focus of the report was the conduct and regulatory oversight of commercial lotteries in Ontario. The report concluded that more had to be done to protect the public from

fraud and theft in Ontario's lottery system, and to respond to public complaints concerning this system.

While the Ombudsman's report made 23 recommendations in total, the first three were specifically directed to the Government of Ontario and set out key elements for a new regulatory framework to be administered by an entity separate from the OLG. These specific recommendations concentrated on the investigation, registration and ongoing inspection of lottery retailers and the Ombudsman named the AGCO as an entity that could potentially carry out the envisioned oversight functions.

The Government agreed that the AGCO was the proper body to undertake the responsibility of regulating commercial lotteries in Ontario and directed the Commission to take on this entirely new line of business. A new regulatory regime was developed for lotteries with provisions under both the *GCA* and the *Ontario Lottery and Gaming Corporation Act, 1999* to address fully the issues identified by the Ombudsman within very aggressive timelines.

Based on the AGCO's experience regulating other gaming sectors, the government determined that even broader oversight authority was essential to ensuring integrity throughout the entire lottery system. Therefore, when the new "Lotteries" regulation (O. Reg. 281/07) was filed under the *GCA* on June 28, 2007, it required not only lottery retailers and lottery retailer managers to be registered in order to supply gaming services to the OLG, but also lottery equipment suppliers. With the inclusion of equipment suppliers, such as manufacturers of scratch and win tickets, the new regulatory framework was broader in scope than the Ombudsman's recommendations.

The AGCO began accepting lottery-related registration applications in July 2007, with these businesses needing to be registered and in compliance with the standards and terms of registration as of January 1, 2008 to continue to provide gaming services to the OLG.

To fulfill this expanded AGCO mandate and effectively implement this comprehensive new lotteries regulatory framework, a major enhancement of financial, physical and human resources was required at the Commission, with many of the financial aspects being funded by the OLG itself. Remarkably, with these added resources and the considerable efforts of management and staff from all departments of the AGCO, almost all of the 10,000 lottery retailers were successfully registered by the January 1, 2008 deadline and an entirely new and effective regulatory regime was fully in place by the end of 2007. Most importantly, the AGCO was able to implement this unanticipated new responsibility while, at the same time, meeting its timelines and commitments for previously planned corporate activities.

Key Operational Achievements

AGCO COMPLIANCE | STRATEGY AND RISK-BASED ENFORCEMENT

In keeping with our overall objective of moving towards being a more compliance-focused regulator, the AGCO has developed a multi-faceted compliance strategy comprised of activities related to prevention, communication, cooperation, enforcement, technology and consultation. The overall compliance program is intended to ensure that licensees and registrants carry out their functions in accordance with the law and in a manner consistent with honesty, integrity, and in the public interest. For example, the ultimate goal for the gaming industry is a strategy that ensures the public — both those who engage in gaming and the public-at-large — have confidence in the honesty and integrity of the product and those who participate in making the product available to the public.

One of the key components of the compliance program is the implementation of a risk-based enforcement strategy where enforcement activities are focused on situations where risk is greater and on those licensees and registrants in each sector who pose a greater risk of non-compliance. The main objective of the strategy is to ensure that there is a high rate of compliance with the regulatory requirements in an efficient and effective manner for two important industries in Ontario.

From an operational perspective, the overall risk-based enforcement strategy is comprised of the following activities:

- **Due diligence investigations**
- **Risk assessment**
- **Inspection and Audits**
- **Enforcement and Sanctions**

The AGCO continues to develop and enhance its *risk-based enforcement model*, which has been operating successfully in the liquor sector since November 2006. This model is used as a tool to educate and enhance compliance from the licensees and registrants regulated by the agency. The compliance strategy also involves the continued fostering of relationships which leverage an Integrated Municipal Enforcement Team approach in various municipalities across the province involving local police, fire, health, by-law and licensing authorities.

Data analysis has highlighted that this new approach is increasing compliance rates across the province (data statistics observed in Joint Force Operations — Provincially). In addition, the risk-based enforcement model is being linked to new internal initiatives such as *risk-based licensing* and the proposed use of monetary penalties as a compliance tool in order to augment the Commission's focus on a proactive, meaningful and educational compliance strategy. This same approach is being developed and implemented for the new lottery regulatory regime; significant training initiatives have been undertaken within the agency regarding lottery compliance (this approach in the lottery sector is leading edge across the country).

Liquor Enforcement

The AGCO also continues to enhance co-ordination with other provincial and local agencies with respect to liquor enforcement. As part of the AGCO's focus on enforcement efforts involving illegal activities in licensed establishments and to foster better co-ordination with

other provincial and local agencies, enforcement staff have been trained with the knowledge and expertise required for the changing environment, and educational programs have been developed for local enforcement agencies in relation to liquor enforcement.

A significant example of extensive coordination with municipal authorities from this past fiscal year was the creation of a committee comprised of officials from the AGCO, the City of Toronto and law enforcement agencies established to discuss issues related specifically to Toronto's Entertainment District in an effort to improve compliance and safety in the area.

MODERNIZATION OF REGULATORY FRAMEWORKS

Legislative and Regulatory Updates

The AGCO continually works with Ministry of Government and Consumer Services staff on legislative and regulatory amendments to the *LLA*, *GCA*, *AGRPPA*, *Wine Content and Labelling Act, 2000* and other relevant legislation. Since 2006/07, the following amendments have been approved by government:

LIQUOR

As of December 12, 2006, amendments were made to the *LLA* and its regulations and the *AGRPPA* that, after various proclamation dates over the course of 2007 (primarily July 1, 2007):

- Authorize the creation of a risk-based approach to liquor licensing;
- Broaden the scope of AGCO licensing investigations, including enhanced authority with regards to "interested persons";
- Allow for cost-recovery from applicants for complex licensing investigations;
- Introduce grounds for the refusal, suspension or revocation of a liquor sales licence if the licensee is not the true operator of the establishment;
- Permit the establishment of monetary penalties for a limited number of liquor licence violations and allow the revenue generated to be used for public and licensee education;
- Transfer authority from the AGCO Board to the Registrar to clarify previous delegations of power and streamline AGCO processes;
- Provide the Registrar with discretion to consolidate liquor sales licences at the same premises if operated by the same licensee;
- Specify a minimum two-year ineligibility for locations disqualified from hosting events held under Special Occasion Permits;
- Prevent the transfer of a licence after a Notice of Proposal (NOP) has been issued;
- Create a two-year waiting period for individuals to reapply if a liquor sales licence is refused or revoked on grounds other than public interest; and
- Permit bingo hall operators to apply for liquor sales licences as part of a pilot project designed to help the bingo industry compete with other entertainment venues.

A number of other smaller and technical changes were also included in this package of reforms and were proclaimed in conjunction with the items highlighted above:

- Effective May 2007, a change was made to Regulation 719 allowing the creation of a *Manufacturer's Limited Liquor Sales Licence* that permits Ontario wineries and breweries to sell and serve their wine and beer for consumption in single servings throughout their manufacturing sites and augments tourism opportunities in that particular sector.

- As of July 13, 2007, comprehensive changes were made to several regulations under the *LLA*, complementing the statutory changes listed above, that:

Regulation 719 – Licences to Sell Liquor

- Allow patrons to bring into licensed establishments, sealed alcohol which was purchased from a government store and intended for personal use elsewhere;
- Mandate all licensees to ensure appropriate staff complete server training by January 1, 2008;
- Require licensees to take reasonable measures to deter or minimize damage caused by disorderly conduct in the vicinity of their establishment;
- Establish a duty for licensees/management to maintain control over entry into their establishments, as well as the activities that take place in them;
- Allow the licensing of hotel and motel lobbies;
- Prohibit alcohol without liquid (AWOL) devices, which are designed to produce a mist for inhalation, at licensed establishments;
- Introduce minimum liquor pricing and responsible drink price flexibility; and
- Permit the service of liquor to all persons of legal drinking age on a golf course.

Regulation 718 – Manufacturers' Representatives and Liquor Delivery Services

- Mandate that all liquor delivery service operators ensure that appropriate staff members successfully complete server training by January 1, 2008;
- Require liquor delivery service operators to immediately notify the AGCO of a business address change; and
- Permit manufacturers' representatives to keep existing liquor products, rather than strictly "new" products, for the purpose of providing samples.

Regulation 720 – Manufacturers

- Clarify that liquor manufacturers' records must be kept for a minimum of six years for inspection purposes.

Regulation 58/00 – Ferment on Premise Facilities

- Change the name "brew on premise" to "ferment on premise"; and
- Eliminate the three-month grace period for licence renewals to create consistency with other types of licences.

LLA Regulations – General

- Amend and streamline the prescribed ownership sections for licence transfer purposes, including establishing that any share transfer that results in a 10% ownership of any class of shares is a prescribed change; and
- Eliminate LLBO photo cards as a prescribed form of identification.

As with the accompanying statutory amendments, a number of other smaller and technical changes were also made along with the items highlighted above.

The government continues to recognize that public attitudes towards the province's liquor laws are changing and is committed to continuing to review the existing rules to ensure they are in step with marketplace realities and reflect society's current lifestyle and beliefs and to ensure that the industry operates in a socially responsible manner.

GAMING

In regards to the *GCA*, a significant regulatory extension was made to Ontario's gaming framework with the addition of O. Reg. 281/07 (Lotteries), which was filed on June 28, 2007 and primarily came into effect on January 1, 2008. This new regulation forms part of the government's response to the Ombudsman's March 26, 2007 report on the OLG, "*A Matter of Trust*", and allows the AGCO to regulate the sale of commercial lottery tickets, including the registration of lottery retailers. Specifically, O. Reg. 281/07 provides for the registration of lottery retailers, lottery retailer managers and lottery equipment suppliers in order to supply gaming services to the OLG with respect to lottery tickets.

The inclusion of lottery-related registrants under the *GCA* means they are subject to all of the existing requirements of the Act, such as investigation by the Registrar of Alcohol and Gaming concerning the character, integrity and financial competence of registrants/applicants and interested persons, the ability of the Registrar of Alcohol and Gaming to propose suspensions and revocations of registrations, and inspections and investigations by the AGCO to ensure regulatory compliance. In addition, the new regulation requires registrants to comply with standards established by the Registrar and to have internal controls if required by the Registrar. The AGCO began accepting applications for lottery-related registrations on July 1, 2007, with registration being required and enforcement of the new registration regime commencing on January 1, 2008.

As well, O. Reg. 282/07 under the *AGRPPA* was filed on June 28, 2007 to enable monetary penalties to be assessed under the *LLA* and the *GGA*. The *LLA* changes took effect on July 17, 2007, while the *GCA* changes took effect January 1, 2008. In accordance with the *AGRPPA*, all funds received in respect of monetary penalties will be used for public awareness, as well as education and training programs for the general public, registrants, licence holders and permit holders, in relation to both alcohol and gaming.

Another regulatory change that was made in 2007 requires the OLG to comply with several management controls that were approved by the Registrar of Alcohol and Gaming and took effect on January 1, 2008. This requirement is provided for under amendments to O. Reg. 198/00 under the *Ontario Lottery and Gaming Corporation Act, 1999*. The amendments also provide for an arbitration process to resolve disputes over a prize between two or more claimants. This process is to be managed by the Chair of the Board of the AGCO.

The government and the AGCO recognize that the gaming industry is continually evolving and facing new challenges and issues, and that the gaming regulatory framework, as with liquor licensing, needs to be reviewed on a consistent basis to ensure it remains fully effective. For example, an area that has been identified for possible future reform is casino gaming, which has not seen major regulatory changes in over a decade.

Charitable Gaming Update

The AGCO continued its work with the charitable gaming stakeholder groups including those involved in bingo, break open tickets, and raffles, in an effort to assist the charitable gaming sector to remain viable in a complex and competitive environment. The groups, which are comprised of charitable and industry association representatives, have provided assistance in implementing the AGCO's modernization agenda.

The groups have proposed initiatives to introduce flexibility to the charitable gaming regulatory framework and have been instrumental in developing new options for the charitable gaming industry throughout the years. During 2007, the AGCO made significant strides in continuing to implement the directions and priorities identified in the *Modernization of Charitable Gaming*. Key accomplishments in this area include:

NEW REVENUE MODEL FOR CHARITABLE BINGO HALLS

The AGCO implemented the new bingo revenue model for pooling bingo halls in May 2007. The new bingo revenue model was based on the recommendations of a consultant (HLT Advisory) after consulting with bingo sector participants and completing a thorough analysis. The new bingo revenue model is intended to assist with the stabilization of charitable gaming, as well as provide for opportunities to enhance the business. Such enhancement opportunities for the bingo sector are expected to arise from being able to offer the customer a positive entertainment experience, using the customer's interests to drive the business decisions, creating greater flexibility for games being offered, establishing a focus on the marketing of the game, and providing incentives to grow the business. The new bingo revenue model also recognizes the need to focus on the advertising and promotion of the business. This includes establishing a mechanism for an industry-developed and administered Bingo Development Fund for the benefit of all pooling bingo halls across the province. The implementation of the new bingo revenue model for pooling bingo halls is based on the principles outlined for the modernization of charitable gaming and, specifically, builds on the provision of increased flexibility coupled with increased accountability and trackability.

BREAK OPEN TICKET SALES

The Break Open Ticket Development Fund Management Committee provided the Registrar with recommendations relating to break open tickets sold at venues other than bingo halls. The review and analysis of the recommendations is ongoing. A significant recommendation was implemented in September 2007 when the AGCO Board and the Minister of Government and Consumer Services announced the suspension of the retailer registration fee in order to help charities raise more money. The industry has also been realizing the benefits of an earlier modernization initiative, the introduction of Break Open Ticket Seal Card and Bingo Event Games. These products have been introduced in bingo halls and service clubs and have been very well received by players resulting in increased revenues for charities.

GREATER FLEXIBILITY AND ACCOUNTABILITY

As suggested above, the Registrar remains committed to continuing to increase flexibility in the charitable gaming sector provided that it is balanced with clear accountability. For example, the AGCO continues to meet with key representatives of the "mega-raffle" sector to identify opportunities to enhance the strength and viability of this sector.

REVISED TERMS AND CONDITIONS

The Registrar has undertaken a review of all terms and conditions for charitable gaming and developed a new framework whereby those requirements common to all lotteries are codified in a single set of "core" terms and conditions that focus on honesty, integrity and accountability. Requirements unique to different lotteries, however, remain specific to the terms and conditions and standards independently established for each.

The new core *Lottery Licence terms and conditions*, the *terms and conditions for Bingo and Break Open Tickets conducted and managed in Class A, Class B bingo halls and pooling Class C bingo halls*, as well as *Registrar's standards for Financial Management and Administration for pooling bingo halls*, were introduced in May 2007. Work continues on reviewing and updating the other terms and conditions for charitable gaming.

INFORMATION TECHNOLOGY AND HUMAN RESOURCES PLANS

In April 2007, a five-year Strategic I.T. Plan was developed and approved by the Executive Committee. The purpose of the plan is to align technology projects with the AGCO's corporate priorities and to ensure I.T. supports ongoing business requirements. The objectives of the plan are to provide an integrated enterprise information system that will improve the flow of information, automate manual processes and provide increased availability of information throughout the organization. Through the introduction of electronic service delivery, external clients and stakeholders will be able to access and provide information that will result in improved efficiencies. Several significant projects have already been completed (*Bingo Revenue Model, Deputy Registrar Review, Risk-Based Enforcement)* and several are in progress, i.e. *new lottery licensing system.*

Similarly, the AGCO's Human Resources department has developed a comprehensive plan which will support corporate and individual needs (including a training plan, succession plan and vacancy management). In addition, the Commission has taken steps to operationalize the plan, including the staff training requirements survey. This survey has resulted in the identification and implementation of such training programs as:

- **Professional Effectiveness**
- **Business Writing Skills**
- **Wellness Seminars and a session on Critical and Analytical Thinking**

Furthermore, a *Leadership Development Program Pilot* was implemented, secondment and developmental opportunities were made available throughout 2007/08 as part of the recruitment and retention strategy, recruitment profiles have been created for each position and a ten year service award and an employee recognition program were introduced on the AGCO's 10th anniversary on February 23, 2008. Moving forward, the concept of comprehensive cross-training is being explored in the Licensing and Registration Branch.

COMMUNICATIONS REVIEW

The AGCO retained Hill & Knowlton in November 2007 to undertake a comprehensive, agency-wide communications review. The objectives of the review were to:

- Obtain feedback from a wide range of internal and external stakeholders on the efficacy of AGCO's current communications materials, tools and methods (Annual Report, information bulletins, Notices to Industry, consultation papers, etc.), and then use this information to improve the consistency, clarity and professionalism of these communications products for stakeholders; and
- Conduct a thorough and independent review of the AGCO's visual identity and current communications vehicles, including internet and intranet sites, publications and other products, with a view to improving the overall effectiveness of the agency's communications strategy.

The review has been completed and recommendations are being considered.

ELECTRONIC GAMING EQUIPMENT AND SYSTEM APPROVALS

The gaming marketplace continues to change as consumer demands and increased competition in border communities continues to grow. Operators of casinos, charity casinos and slot machine facilities at racetracks are facing more and more challenges as competition for the entertainment dollar and cross-border competition becomes an increasing reality. As the regulator, the AGCO must remain responsive to the increasing demand for testing and approval of new gaming equipment and gaming management systems.

A key accomplishment in 2007/08 was the development and establishment of strong new technical standards for electronic gaming machines used in Ontario casinos, charity casinos and slot machine facilities at racetracks to help ensure that Ontario's regulatory structure continues to remain effective into the future. The new technical standards were released on December 13, 2007. An independent consultant has concluded, based on a thorough review, that these new AGCO standards "are the most comprehensive in terms of requirements for player protection and game fairness" that have been adopted in North America.

While these new electronic gaming machine standards were drafted after carefully reviewing policies in other jurisdictions around the world, they were developed in Ontario for Ontario. The standards were, in fact, developed internally by the AGCO's Electronic Gaming Branch, which has the requisite expertise and autonomy to properly examine the various issues and concerns related to the effective oversight of electronic gaming. The AGCO, however, also conducted extensive consultations with relevant stakeholders to ensure that these new standards ensure consistency in the marketplace and reflect recent technological innovations.

The new standards are aimed at continuing to protect the technical integrity of the machines, strengthening consumer protection and enhancing the information available to players to better inform them of how the machines operate. As an example, the new electronic gaming machine standards require manufacturers to certify that there are no intentionally programmed subliminal messages used by the machines. The independent consultant has confirmed that Ontario is the only jurisdiction in the world to specifically address subliminal messaging in its standards and perform random testing in relation to it.

2007/08 Operational Performance

NUMBER OF LIQUOR LICENSEES AND NUMBER OF PERMITS ISSUED		
FOR FISCAL YEARS	**2006/07**	**2007/08**
Liquor Sales Licensed Establishments	16,827	**16,652**
Ferment on Premise Facilities	619	**619**
Liquor Delivery Services	264	**270**
Manufacturers	203	**211**
Total	**18,683**	**18,531**
Alcohol Beverage Advertisements Reviewed	139	**97**
Notices of Proposal*	1,017	**763**
Special Occasion Permits Issued	**63,681**	**59,426**

* Decrease attributable to implementation of new processes to support compliance focus and early resolution of issues.

Lottery Licences Issued by the AGCO

LOTTERY LICENSING

The issuance of lottery licences continues to be a two-tiered approach, with the local municipalities issuing the majority of lottery licences.

The AGCO experienced a substantial increase in licenses issued in 2007/08 over 2006/07. This is due to the introduction of the Bingo Revenue Model (BRM) in May 2007 which saw the AGCO adopt a different licensing approach to charitable organizations operating in revenue sharing (pooling) commercial bingo halls. Historically, the AGCO issued licences to the Hall Charity Association, an umbrella organization acting on behalf of all the charitable organizations operating within their respective bingo hall and the local municipality issued a licence to each individual organization operating within the umbrella organization. Through the BRM, the AGCO has adopted a similar practice currently being delivered by the municipalities. As a result, each organization (in concert with their municipally issued licence) is now issued a Charitable Gaming licence by the AGCO to conduct and manage. Licences are no longer issued to the umbrella organization. Although this has caused a large increase in issuance, in actual fact the process has become far more streamlined through strengthened internal controls and reporting requirements which ultimately has heightened the integrity of the events.

LOTTERY LICENCES ISSUED BY THE AGCO		
FOR FISCAL YEARS	**2006/07**	**2007/08**
Bingo	1,531*	**165***
Charitable Gaming (Bingo Hall)	n/a	**13,181****
Break Open Ticket (BOT)	548	**278**
Raffle	176	**183**
Social Gaming Events	60	**53**
Other	5	**5**
Total	**2,320**	**13,865**

* This figure includes licences issued to:
- Hall Charity Associations, on behalf of charities, to manage and conduct lottery events at pooling bingo halls prior to the implementation of the New Bingo Revenue Model; and
- Charitable and/or religious organizations to manage and conduct lottery events at non-pooling halls and exempt locations

Note: Separate licences are issued for each provincially licensed lottery type.

** This figure includes licences issued to:
- Individual member organizations of Hall Charity Associations to manage and conduct charitable gaming events at pooling bingo halls under the New Bingo Revenue Model.

Note:
- The New Bingo Revenue Model was implemented in May 2007.
- A new lottery licence was created entitled Charitable Gaming (Bingo Hall), which is not game-specific.
- There were approximately 3,600 member organizations licensed to manage and conduct lottery events at pooling bingo halls in 2007/2008. Member organizations may receive multiple Charitable Gaming (Bingo Hall) licences within the course of a year. The licence period of Charitable Gaming (Bingo Hall) licences mirror the licence period of municipally issued authorizations.

Registration of Lottery Retailers, Lottery Retail Managers and Lottery Suppliers

Commencing on January 1, 2008, the AGCO began to regulate lotteries in Ontario operated by the OLG. This required all lottery retailers, lottery retail managers and lottery equipment suppliers to the OLG to be registered with the AGCO effective January 1, 2008 (or have submitted an application by January 1, 2008), and follow specific terms in order to sell lottery products in Ontario. Registration of retailers by the AGCO began in July 2007, with no fee for initial registration.

NUMBER OF LOTTERY RETAILER AND RETAIL MANAGER REGISTRANTS		
FOR FISCAL YEARS	**2006/07**	**2007/08**
Lottery Retailers	n/a	**10,609**
Lottery Retail Managers	n/a	**2,296**
Lottery Suppliers	n/a	**23**
Total	**n/a**	**12,928**

Gaming Registrants

The charitable and casino gaming industries continue to face various challenges including reduced attendance at bingo halls, casinos, charity casinos and slot machine facilities at racetracks due to a number of factors including, non-smoking by-laws, new border crossing procedures, high Canadian dollar, and increased competition from out-of-country casinos adjacent to border cities.

NUMBER OF GAMING REGISTRANTS		
FOR FISCAL YEARS	**2006/07**	**2007/08**
CHARITABLE GAMING		
Bingo Hall Operators	93	**80**
Gaming/Equipment Suppliers & Manufacturers	106	**94**
Break Open Ticket Sellers	4,635	**4,868***
Gaming Assistants	3,147	**3,228**
Sub – Total	***7,981***	***8,270***
CASINOS AND SLOT MACHINE FACILITIES		
Gaming Suppliers	2,641	**2,526**
Gaming Employees	17,201	**16,601**
Sub – Total	***19,842***	***19,127***
Total	**27,823**	**27,397**

* This represents the first increase in Break Open Ticket Seller locations in several years.

INVESTIGATION, ENFORCEMENT AND COMPLIANCE

4,847 occurrences

52,847 electronic gaming inspections

CUSTOMER SERVICE |

As part of our service delivery program, AGCO staff continues to provide clients with personal service through our Customer Service Unit. During the 2007/08 fiscal year, the customer service staff provided over 129,950 customers with assistance regarding licensing and registration issues or approximately 20,412 more than the previous fiscal year. This is in addition to handling the over 14,758 walk-in customers at the AGCO's head office Customer Service Desk, and over 32,047 customers that were able to self-serve through our integrated voice messaging system. The increase in inquiries from the previous fiscal year is due to the various statutory and regulatory amendments to the *LLA*, such as the *Limited Licensing of Washrooms, Hallways, Stairwells and Other Similar Areas*, the *Manufacturer's Limited Liquor Sales Licence*, the *mandatory Smart Serve certification*, the *changes to the pricing and promotion of liquor, the implementation of the New Bingo Revenue Model*, and the new requirement to licence lottery retailers, lottery retail managers and lottery equipment suppliers.

MEDIA RELATIONS |

The AGCO has adopted a proactive media strategy, communicating in a timely fashion, that helps to inform and educate the public, licensees and registrants about the AGCO's responsibilities and activities for the licensing and enforcement of the province's liquor and gaming industries. The AGCO issues targeted and timely media releases, and conducts media interviews relating to changes to liquor and gaming legislation, regulation, policy, and decisions rendered by the Board.

AGCO WEBSITE |

The AGCO is committed to providing its clients with accurate and timely information through a number of different media, including the internet. The AGCO's website (*www.agco.on.ca*) provides clients and the general public with timely and easily accessible information about liquor and gaming policies administered by the AGCO. Users of the site have access to all of the registration and licensing application forms, instruction guides and all publications, annual reports and newsletters made available by the AGCO. In 2007/08, there were over 500,000 visitors to the AGCO website.

On average, there have been approximately 100 changes to our website every year since the site was launched.

Performance Measures

AGCO PERFORMANCE MEASURES – 2007/08 *				
GOAL	**OUTPUT MEASURES**	**OUTCOME MEASURES**	**TARGET FOR 2007/08**	**RESULTS**
Satisfied Customers				
To provide appropriate, fair and courteous customer service to all licensees and the general public	Number of customer service feedback responses submitted and analyzed	Increase the % of customer service feedback responses submitted and analyzed	25% increase in completed feedback forms	Met. 91% satisfactory rate
			100% of complaints investigated	100% of complaints investigated
Develop protocol and ensure efficient and meaningful communications between the AGCO and Municipalities	Launch a satisfaction survey to improve support services and how information is shared with municipal partners	% of Municipalities that received and participated in the survey (completed and returned survey)	60% overall satisfactory rating from participating municipalities	87% of respondents provide a satisfactory or higher rating
Effective and Efficient Resource Management				
To ensure business processes are operating as efficiently and effectively as possible	Turnaround time for the NOP and hearings processes	Reduction in the average turnaround time from NOP issuance to hearing date.	Average turnaround time reduced from current 6/7 months to 4 months by 2007/08	The average turnaround time was reduced to 3-4 months
	Turnaround time for issuance of NOPs	Expedited turnaround time from point of liquor licensee infraction to Deputy Registrar Review Submission	A reduction to 45 days (infraction to DRRS) for infractions involving AGCO Inspectors	A gradual reduction in turnaround time throughout the fiscal year has occurred from first quarter results of 66 days to last quarter results of 51 days
		Expedited turnaround time from point of Deputy Registrar Review Submission to issuance of NOP	A gradual reduction in turnaround time throughout the fiscal year	A gradual reduction in turnaround time throughout the fiscal year has occurred. On average the turnaround time is under 75 days
Business/Operational Excellence				
Risk Management strategies employed across the AGCO	Development of enterprise risk management strategy	Risks to organization and operational effectiveness controlled/reduced	Risk management framework outlining highest priority risks, mitigation strategies and follow up timelines will be implemented	All major cross branch initiatives have documented risk management strategies and implementation plans outlining mitigation activities/controls

The 2007/2008 year end results for performance measures established for the agency were all on target.

* MGCS Priority: Create a Modern Regulatory Framework to Protect Consumers and Facilitate Economic Growth

Financial Performance

The AGCO remits all revenues collected to the government's consolidated revenue fund (CRF) and operates within a separate budget allocation contained in the Ministry of Government and Consumer Services' printed estimates. For the fiscal year ending March 31, 2008, the AGCO managed all operating expenditures within its budget allocation.

2007/08 FISCAL YEAR: REVENUES AND EXPENDITURES

FOR FISCAL YEARS	Apr. 1, 2006 – Mar. 31, 2007	Apr. 1, 2007 – Mar. 31, 2008
REVENUES		
Fees & Levies	$499,373,068	**$505,981,798**
Total	**$499,373,068**	**$505,981,798**
EXPENDITURES		
Salaries and Benefits	$36,469,593	**$41,634,086**
Other Direct Operating Expenses	$10, 800,917	**$12,880,355**
Less Recoveries	($7,103,283)*	**$(15,915,001)***
Total	**$40,167,227**	**$38,599,440**

- Recoveries for 2007/08 include monies received from liquor licence advertisements, eligibility review investigations and for the registration and regulation of OLG lotteries.
- Total program expenditures for 2007/08: $62,514,441
- Total program expenditures for 2006/07: $47,270,510

AUDIT | The AGCO is subject to Ministry of Government and Consumer Services review and audit. In addition, the AGCO is subject to audit by the Auditor General and additional audits that the Minister may require.

Appendices

Gaming: Legal Framework

CRIMINAL CODE OF CANADA

The *Criminal Code of Canada* (the "*Code*") establishes what types of gaming activities are legal, and the provinces are assigned responsibility for operating, licensing and regulating legal forms of gaming.

Part VII of the *Code* prohibits gaming in general, while Section 207 (1) allows for a number of exceptions to the general prohibition. Specifically, it permits "lottery schemes" provided that they are:

- "Conducted and managed" by the province in accordance with any law enacted by that province;
- "Conducted and managed" by a licensed charitable or religious organization provided that the proceeds of the lottery scheme are used for a charitable or religious purpose; and
- "Conducted and managed" by a licensed board of a fair or exhibition or by an operator of a concession leased by that board.

"Lottery schemes" are defined under the *Code* but do not include: three-card monte, punch board or coin table; book-making, pool selling or the making or recording of bets; and games operated through a computer, video device or slot machine, unless the lottery scheme is managed and conducted by the province (Sec. 207(4)).

Only the government of a province can conduct and manage a lottery scheme involving dice, slot machines or other computer devices.

GAMING CONTROL ACT, 1992

The *Gaming Control Act, 1992 (GCA)* (formerly the *Gaming Services Act*), which was proclaimed in February of 1993, provides for the regulation of gaming operations, suppliers and gaming assistants/employees of casinos, charity casinos, slot machine facilities, charitable gaming events, and registration of OLG lottery retailers, lottery retail managers, and lottery suppliers.

ORDER-IN-COUNCIL 2688/93 (as amended)

Order-in-Council 2688/93 (the "OIC") provides that charitable organizations may be licensed to conduct and manage lottery events by either the Registrar appointed under the *Gaming Control Act, 1992* (the "Registrar") or, depending on the type of charitable gaming event and the value of prizes to be awarded, by a municipal council. The OIC outlines terms and conditions that apply to lottery licences. The OIC also provides that the Registrar may attach additional terms and conditions to any licences he or she issues, and that municipal councils may attach terms and conditions to licences they issue provided they do not conflict with those of the Registrar.

In order to qualify for a lottery licence, an organization must have a "charitable object or purpose". Charitable object or purpose is defined at common law and under the OIC as any object or purpose relating to:

- The relief of poverty;
- The advancement of education;
- The advancement of religion; or
- Any other purpose beneficial to the community.

The AGCO estimates money spent annually by the public on charitable gaming province-wide at approximately $1.4 billion. Licensed charitable gaming in Ontario benefits thousands of local community charitable organizations. The AGCO estimates that charitable organizations in Ontario raised approximately $213 million by holding licensed lottery events.

2007/08 ESTIMATE OF PROVINCE-WIDE CHARITABLE GAMING REVENUES

	Gross Wager	Net Revenues	Charity Profit
Bingos	$602,000,000	$149,000,000	$65,000,000
Break Open Tickets	$310,000,000	$101,000,000	$39,000,000
Raffles	$317,000,000	$186,000,000	$71,000,000
Total	$1,229,000,000	$436,000,000	$175,000,000

Note: Figures represent calendar year.

AUTHORITY FOR LOTTERY LICENSING

Municipalities and the AGCO have responsibility for issuing lottery licences. The OIC provides municipalities with licensing authority for:

- bingo events, including table board bingo, with prizes of up to $5,500;
- media bingo events with prizes up to $5,500;
- break open tickets for local organizations;
- raffles up to $50,000 in prizes; and
- bazaar lotteries which include: wheels of fortune with a maximum bet of $2.00, raffles not exceeding $500, and bingo events up to $500.

The Registrar of Alcohol and Gaming is the licensing authority for:

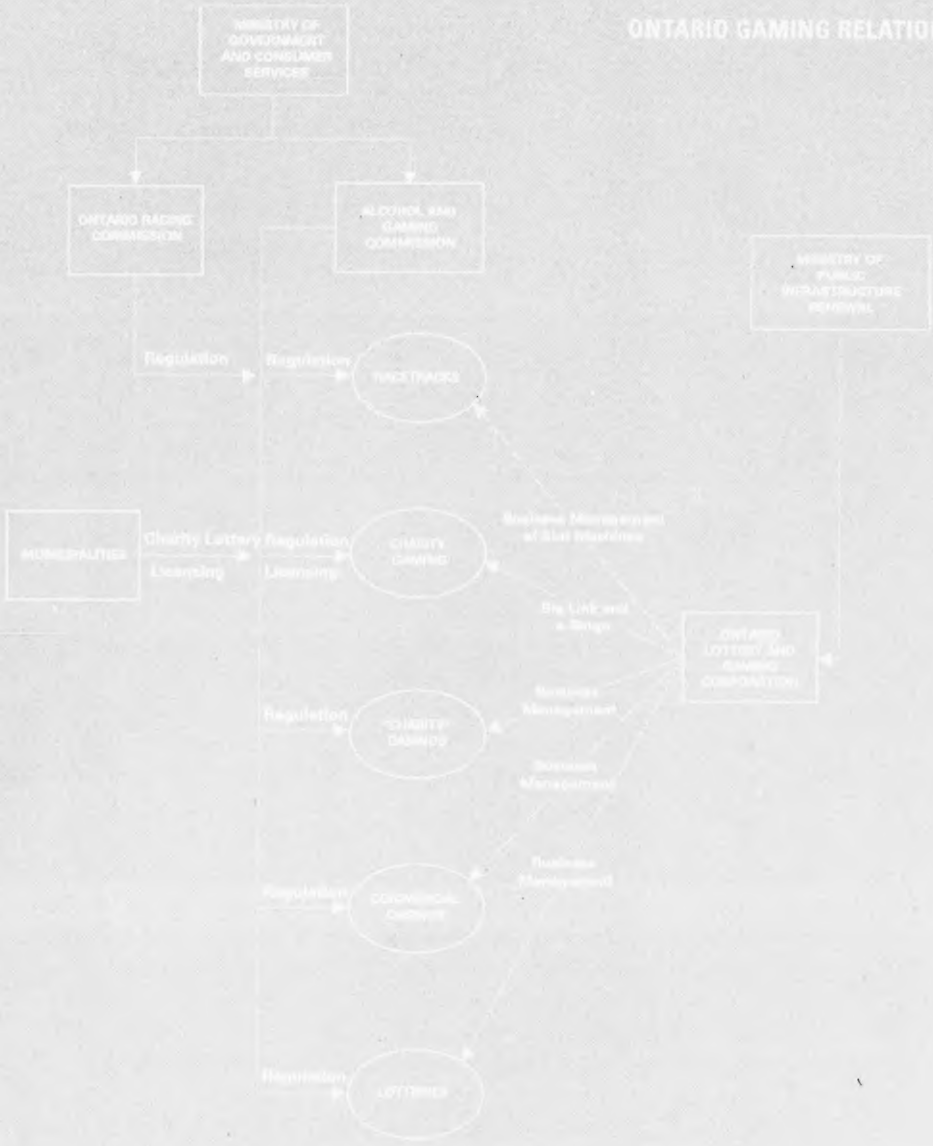
- bingo events over $5,500 in prizes; super jackpot bingo events; progressive bingo game events;
- social gaming events (i.e., table game event held in conjunction with a social event);
- raffles over $50,000;
- break open tickets sold in conjunction with other gaming events;
- break open tickets sold by organizations with a provincial mandate;
- fairs and exhibitions and lotteries held in unorganized territories.

The AGCO establishes the framework for municipalities to exercise their authority by establishing the terms and conditions for each type of licence, providing direction regarding determining eligibility of organizations for licensing, as well as providing assistance with compliance and enforcement. Compliance staff handles many inquiries from municipalities seeking guidance on the interpretation of licensing policies and terms and conditions. In addition, compliance staff provides information and training sessions for municipalities, licensing officers, charities and suppliers.

FIRST NATIONS LOTTERY LICENSING

In 1998, the government approved a First Nations lottery-licensing framework, which delegates authority comparable to that of municipalities to individual First Nations. An Order-in-Council is issued to each participating First Nation. The Order-in-Council provides First Nations with authority to issue licences to religious and charitable organizations to conduct lottery schemes.

ONTARIO GAMING RELATIONSHIPS*



The AGCO is responsible for the regulation of casinos, charity casinos, slot machine facilities at racetracks and lotteries conducted by the OLG.

In accordance with the *Code* and the *Ontario Lottery and Gaming Corporation Act, 1999*, the OLG is responsible for the "management and conduct" of the gaming operations at commercial casinos, charity casinos, slot machine facilities at racetracks, "Big Link Bingo" games played at charity bingo halls and e-bingo units. The OLG is also responsible for the management of all traditional lottery games such as "Super 7 Event", "6/49" and scratch and win type tickets.

Municipalities and the AGCO have responsibility for issuing lottery licences. The majority of lottery licences are issued by municipalities in the province — primarily to religious and charitable organizations for bingo and break open tickets licences.

* As at March 31, 2008

CHARITY CASINOS	# of Slots	# of Tables	Location	Open to Public
OLG Casino Brantford	514	55	Brantford	Nov. 19/99
Great Blue Heron Charity Casino	545	60	Port Perry	May 5/00
OLG Casino Point Edward	499	30	Point Edward	Apr. 20/00
OLG Casino Sault Ste. Marie	441	15	Sault Ste. Marie	May 23/99
OLG Casino Thousand Island	516	26	Gananoque	Jun. 22/02
OLG Casino Thunder Bay	452	15	Thunder Bay	Aug. 30/00

COMMERCIAL CASINOS	# of Slots	# of Tables	Location	Open to Public
Casino Niagara	1,786	62	Niagara Falls	Dec. 9/96
Niagara Fallsview Casino Resort	3,117	124	Niagara Falls	Jun. 8/04
Casino Rama	2,528	122	Orillia	Jul. 31/96
Casino Windsor	2,614	91	Windsor	Interim May 17/94 Permanent Jul. 29/98

SLOTS AT RACETRACKS	# of Slots	Location	Open to Public
Ajax Downs	250	Ajax	Mar. 2/06
OLG Slots at Clinton Raceway	108	Clinton	Aug. 26/00
OLG Slots at Dresden Raceway	112	Dresden	Apr. 20/01
Flamboro Downs	801	Dundas	Oct. 13/00
Fort Erie Racetrack	1,096	Fort Erie	Sept. 11/99
Georgian Downs	455	Barrie	Nov. 29/01
Grand River Raceway	200	Elora	Dec. 6/03
OLG Slots at Hanover Raceway	111	Hanover	Feb. 21/01
OLG Slots at Hiawatha Raceway	452	Sarnia	May 10/99
Kawartha Downs Raceway	450	Peterborough	Nov. 24/99
Mohawk Raceway	855	Milton	Aug. 12/99
Rideau Carleton Raceway	1,250	Ottawa	Feb. 18/00
Sudbury Downs Raceway	351	Sudbury	Nov. 28/99
OLG Slots at Western Fair	750	London	Sept. 30/99
OLG Slots at Windsor Raceway	747	Windsor	Dec. 18/98
Woodbine Raceway	2,029	Toronto	Mar. 29/00
Woodstock Raceway	112	Woodstock	Jun. 22/01

Alcohol: Legal Framework

LIQUOR LICENCE ACT | The *Liquor Licence Act (LLA)* establishes the licensing and regulatory regime for the sale and service of beverage alcohol in Ontario, except for retail sale to the public by the LCBO.

Various classes of licences and permits are established including:

- licence to sell beverage alcohol;
- licence for ferment on premise facilities;
- licence for liquor delivery service;
- manufacturers' licence;
- licence to represent a manufacturer of beverage alcohol; and
- special occasion permits for the sale and service of beverage alcohol on special occasions. For example, cash bars at fundraising events, weddings and receptions.

The *LLA* also establishes the rules for sale and service of beverage alcohol, including:

- no sale or service to persons under the age of 19;
- no sale or service to persons who appear to be intoxicated;
- no sale of beverage alcohol before 11:00 a.m. or after 2:00 a.m. (unless otherwise stipulated);
- no sale of illegal beverage alcohol; and
- where beverage alcohol may be consumed (residence, licensed premises, private place).

The *LLA* and regulations provide for an inspection and enforcement regime to ensure that licensees and permit holders are in compliance with the law and regulations relating to the sale and service of beverage alcohol.

LIQUOR CONTROL ACT [SECTION 3(1)B, E, F, G AND 3(2)A] Effective July 3, 2001, the AGCO assumed responsibility from the LCBO for the following:

1. To control the delivery of liquor to the public;
2. To authorize manufacturers of beer and spirits and wineries that manufacture Ontario wine to sell their spirits, beer or Ontario wine in stores owned and operated by the manufacturer or winery and to authorize The Beer Store to operate stores for the sale of beer to the public;
3. To control and supervise the marketing methods and procedures in stores owned and operated by manufacturers and wineries referred to in number 2;
4. To determine, subject to the *LLA*, the municipalities within which stores owned and operated by manufacturers and wineries referred to in number 2 shall be established or authorized and the location of such stores in municipalities;
5. To establish conditions, subject to any regulation, with respect to authorizations for stores owned and operated by manufacturers and wineries referred to in number 2; and
6. To establish conditions, subject to any regulations, with respect to authorizations granted with respect to the delivery of liquor to the public.

WINE CONTENT AND LABELLING ACT, 2000

The *Wine Content and Labelling Act, 2000* specifies that an Ontario winery may manufacture and sell wine in the province using imported grape or grape products. If an Ontario winery uses imported grapes or grape products in manufacturing its wine, the content of each bottle of wine manufactured by the winery must be no less than 30% Ontario grapes or grape product.